

Did we make any money?

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I am told that accounting issues are not considered the most exciting blogging topics. They are, however, the [focus of much of my thinking at present](#), which is why they will be addressed here. Accountancy does, in my opinion, have the power to change understanding. That, for me, is its importance.

I addressed this point in an article on [AccountingWEB yesterday](#). One of the most common questions asked of an accountant is 'did we make any money?'. The profit and loss account, or income statement, does not provide a mechanism to answer that question because what it reports is whether or not a reporting entity is bigger or smaller as a result of the activities of a period, and not whether the resulting growth delivered more cash to the business, which does not necessarily follow.

Nor does a balance sheet answer this question because it is static data, determined at a point in time.

To address this issue a statement reconciling these two primary accounting reports is required. A true cash flow could do it, but they are very hard and costly to prepare, and not necessarily very helpful. I suggest that a Statement of Source and Application of Funds, last a compulsory requirement in U.K. accounting in 1990, would provide most of the information a cash flow statement can provide and can answer this fundamental question if 'did we make money?' They are also quick and ready quite easy to prepare, based on my own experience. As such the inclusion of one in any set of accounts would considerably add to user understanding, most especially when the much harder to comprehend cash flow statement required by current accounting standards is probably disclosed in less than one per cent of all U.K. accounts at present, despite the enormous significance of the issue.

My AccountingWEB piece is [here](#). This need for better accounting standards, and similar ideas to enhance the presentation of smaller business accounts so that users might understand them, is going to be a recurring part of my work this year.